# ***Another Band-aid:***

## Extending Gas Tax Holiday Won't Fix Fossil Fuel Inflation

**by Jim Stanford**

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The federal government has announced it will extend the current holiday on the federal excise tax on gasoline and diesel fuel for another 4 months, until January 31, 2027. The tax holiday first came into effect on April 20, and was originally set to end on Labour Day. It was intended to offset some of the impact of rising oil prices (resulting from the U.S.-Israeli attacks on Iran and the closure of the Strait of Hormuz) on Canadian consumers.

The original tax holiday was projected to reduce federal revenues by $2.4 billion.[1] Its extension until January will reduce revenues by a similar amount. Across the two tranches, therefore, this measure will increase the federal government deficit by about $5 billion for the year (since it has not been offset with corresponding spending cuts).

While the tax holiday may be appreciated by drivers, it has not addressed the underlying inflationary shock arising from this latest global oil price shock – the 14th such shock world oil markets have experienced since 1973.[2] In fact, Canadian gasoline and diesel prices are higher now than they were before the tax holiday came into effect (and have been higher through most of the 18 weeks since it began).[3] The full value of

[1] Department of Finance Canada, "Temporarily suspending the federal fuel excise tax," April 14, 2026, https://www.canada.ca/en/department-finance/news/2026/04/temporarily-suspending-the-federal-fuel-excise-tax.html.

[2] Michael Liebreich, "The Great Clean Energy Acceleration 2.0," Bloomberg NEF, May 27, 2026, https://about.bnef.com/insights/clean-energy/liebreich-the-great-clean-energy-acceleration-2-0/.

[3] As of September 2, 2026, average Canada-wide regular gasoline prices ($1.78 per litre) were 3 cents per litre higher than on April 19, before the tax holiday came into effect. Average retail prices for diesel ($2.35 per litre) were 4 cents per litre higher than the week before the tax holiday began. Calculations from gasbuddy.com/charts and Natural Resources Canada, "Average Retail Prices in Canada," https://www2.nrcan.gc.ca/eneene/sources/pripri/prices_byyear_e.cfm.

the tax holiday (to fuel consumers) has thus been more than offset by continued increases in the cost of petroleum products.

New national income data released last week by Statistics Canada confirms Canadian consumers are paying billions of dollars extra for petroleum products despite the cushion from the excise tax holiday (which is, in effect, a federal subsidy for gasoline and diesel purchases). There are also signs that the price shock is spreading into other products beyond petroleum, including air travel, other transportation, and food. This raises the spectre of another spike in broader inflation, sparked by petroleum prices – similar to the surge in inflation that followed the 2022 oil price shock (following Russia's invasion of Ukraine[4]). The new Statistics Canada data also confirms the petroleum industry in Canada – both upstream (extraction) and downstream (refining) – has received record profits as a result of the current oil price shock. The resumption of active hostilities between the U.S. and Iran confirms that this oil price shock, and its harm for consumers, will continue for months to come.

Another temporary band-aid from the federal government, in the form of an extended tax holiday does not address the underlying problem. It is the fact that Canada has tied its domestic petroleum prices to global futures markets, with no relationship to the availability or cost of Canadian petroleum supplies, that explains why a war on the other side of the world, not involving Canada, is causing such economic, inflationary, and fiscal repercussions here in Canada.

This briefing note reports new data that confirms:

- A large increase in consumer expenses for petroleum products, despite the tax holiday (including $3 billion extra for motor vehicle fuels in just three months).
- The growing gap (called the 'crack spread') between prices of gasoline and diesel, and underlying prices for crude oil. This has exacerbated the impact of the oil price shock on Canadian consumers.
- Early signs of spillover from higher petroleum prices into other prices, and hence into broader inflation – enhancing the risk of future interest rate increases.
- The dramatic increase in profitability for the Canadian petroleum industry, which is a direct result of the oil price shock and the costs paid by consumers.

The report concludes with several policy recommendations regarding how Canada can truly protect itself against the repeated cycles of oil-fired inflation, affordability crises, and higher interest rates.

[4] A full accounting of the impacts of the 2022 oil price shock on Canadian consumers and Canadian inflation is provided in a previous report in the Centre for Future Work's ***False Profits*** project: see Jim Stanford and Erin Weir, "Counting the Costs—Impacts of the 2022 Oil Price Shock for Canadian Consumers and Workers," March 2025, https://centreforfuturework.ca/wp-content/uploads/2025/04/FalseProfits-March2025-Counting-the-Costs.pdf. See also our preliminary projections of the potential impacts of the 2026 price shock, in Jim Stanford, "A Sequel We Don't Want: What the 2026 Oil Price Shock Will Cost Canadians," May 2026, https://centreforfuturework.ca/wp-content/uploads/2026/05/A-Sequel-We-Dont-Want.pdf.

## Direct Consumer Costs

Statistics Canada's quarterly national income accounts include a detailed report on consumer spending, broken down into 132 categories.[5] Spending data is presented in both nominal terms, and real quantity indexes. This allows an analysis of the increase in effective prices experienced within each category, and the impact of those price changes on overall expenditure. Statistics Canada's latest quarterly report on national income (released last Friday, August 28) covers the period from April through June of 2026. This is the first full quarter affected by the oil price shock caused by the war in the Persian Gulf. Most of this period also corresponds to the first tranche of the federal excise tax holiday (which came into effect on April 20).

Two categories of spending correlate directly to consumer purchases of petroleum products: a composite measure of motor vehicle fuels (including both gasoline and diesel[6]), and purchases of household fuel (mostly fuel oil used in Eastern Canada for home heating). Table 1 reports the changes in average effective prices in the second quarter, compared to the year-earlier period.[7] It also reports changes in the real quantities purchased by consumers in this period.

**Table 1**
**Extra Cost of Direct Consumer Purchases of Petroleum Products**
**Second Quarter 2026**

| Category | Change in Average Price (%,yr/yr) | Change in Real Purchases (%,yr/yr) | Extra Expense ($m) |
|---|---|---|---|
| Motor Vehicle Fuels | 24.4% | -3.0% | 3,012 |
| Home Heating Fuels | 21.6% | -34.1% | 114 |
| Source: Calculations from Statistics Canada Table 36-10-0124-01. | | | |

For the quarter as a whole, the average final retail cost of motor vehicles purchases grew by 24.4% compared to like-period 2025. The average final retail cost of fuel oil rose by 21.6%. In response to higher prices, consumers cut back their purchases of both motor vehicle fuels and fuel oil. Consumer demand for motor vehicles declined by 3%, while purchases of home heating fuels fell 34%. The sharp decline in home fuel oil purchases likely reflects the continuing pace of home heating conversions (to heat

[5] See Statistics Canada, "Detailed household final consumption expenditure, Canada, quarterly," Table 36-10-0124-01, https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3610012401.
[6] This data only covers final consumer spending on these products. Most diesel fuel in Canada is purchased by businesses, not consumers, and hence is treated as an intermediate purchase in Statistics Canada's national income system; those extra costs are not included here.
[7] Because of strong seasonal patterns in petroleum consumption, it is generally more meaningful to compare prices and quantities on a year-over-year basis.

pumps and other systems). That decline in purchases significantly reduced the final net cost to consumers from higher fuel costs.

We estimate the extra cost paid by consumers in the three-month period by comparing what they actually spent on both categories of fuel, to what they would have spent if they had bought the same quantity of fuel at the average prices that prevailed in the like period of 2025. Canadian consumers spent over $3 billion extra on motor vehicle fuel in the quarter. This was despite the 10-cent-per-litre federal tax break that was in effect for most of this time.

Consumers also spent $114 million extra on home heating oil, despite the dramatic reduction in quantity purchased. Even though they substantially reduced home fuel consumption (including by shifting to other energy sources), consumers (mostly in Eastern Canada) still paid substantially more for those purchases.[8]

## Indirect Consumer Costs

Past history has shown that the impacts of an oil price shock are never limited simply to consumers' direct purchases of petroleum products. Because petroleum products are used as inputs in the production of most other goods and services in Canada, there is an inevitable flow-through of higher petroleum prices into the costs of businesses in other industries. Those costs will ultimately be passed on to consumers in the form of higher prices for those products – unless those other businesses are willing and able to absorb extra petroleum costs through reduced profit margins, which is unlikely in the long run. In total in Canada, over half of all petroleum products are used by other industries, not by final consumers. So most of the ultimate impact of an oil price shock on prices and affordability is eventually experienced through these indirect channels, rather than directly through higher petroleum product prices paid by final consumers.

**Table 2**
**Selected Examples of Indirect Costs from High Petroleum Prices**
**Second Quarter 2026**

| Category | Change in Average Price (%,yr/yr) | Change in Real Purchases (%,yr/yr) | Extra Expense ($m) |
|---|---|---|---|
| Air Transport | 7.1% | 2.5% | 472 |
| Other Services for Vehicles | 5.3% | 1.9% | 49 |
| Food | 3.5% | 0.4% | 1,334 |
| Source: Calculations from Statistics Canada Table 36-10-0124-01. | | | |

[8] There is no federal excise ta on home heating oil, so the tax holiday has no impact on these prices.

Some signs of these indirect flow-through costs are beginning to appear in data on Canadian consumer spending, as indicated in Table 2. A clear example is the cost of air travel. Air fares on most routes have increased significantly since the war in the Persian Gulf began, mostly because of higher aviation fuel expenses being passed on to consumers. Average costs of consumer air travel rose 7% in the second quarter compared to the year earlier.[9] The total volume of air travel grew modestly despite those higher costs. Evaluated at the prices which prevailed in the second quarter of 2025, Canadian consumers spent $472 million extra on air travel.

Some other industries which are also especially sensitive to petroleum costs are also showing signs of spillover inflation. A category of spending titled "other services for vehicles" reported a 5% increase in average effective prices, adding close to $50 million in expense for consumers.

One category of inflation which has been especially painful for Canadians is food, the average prices of which have grown faster than overall inflation for most of the past several years. Average effective food costs in Canada grew 3.5% in the second quarter, compared to year-earlier levels. The quantity of food purchased was largely stagnant.[10] Food production and food retail are energy-intensive activities, and higher petroleum prices (such as in agriculture, or for road transport of food products) have been a significant cause of rising food prices. Evaluated at year-earlier prices, Canadians spent $1.4 billion extra on food in the second quarter. That is not solely due to higher petroleum prices, of course, but the oil price shock is clearly exacerbating the problem of food inflation.

It takes time for the flow-through effects of higher petroleum input costs to become embedded in broader inflation. The Bank of Canada is watching closely for signs that higher petroleum prices are translating into broader inflationary pressure,[11] and will almost certainly increase interest rates at the first signs of such spillover. That will then impose a double burden on Canadian consumers, who will then face higher borrowing costs on top of higher inflation. The examples listed in Table 2 are just some of the early signs of the potential for this oil price shock to generate another cycle of economy-wide inflation, as was the case in 2022.

## Rising Refinery Margins

An added dimension to the impact of this oil price shock on Canadian consumers has been a noted increase in the gap between crude oil prices, and the final prices charged by the downstream petroleum industry for its refined products (including gasoline and

[9] Once again, this excludes business travel costs, which are considered an intermediate purchase by Statistics Canada.

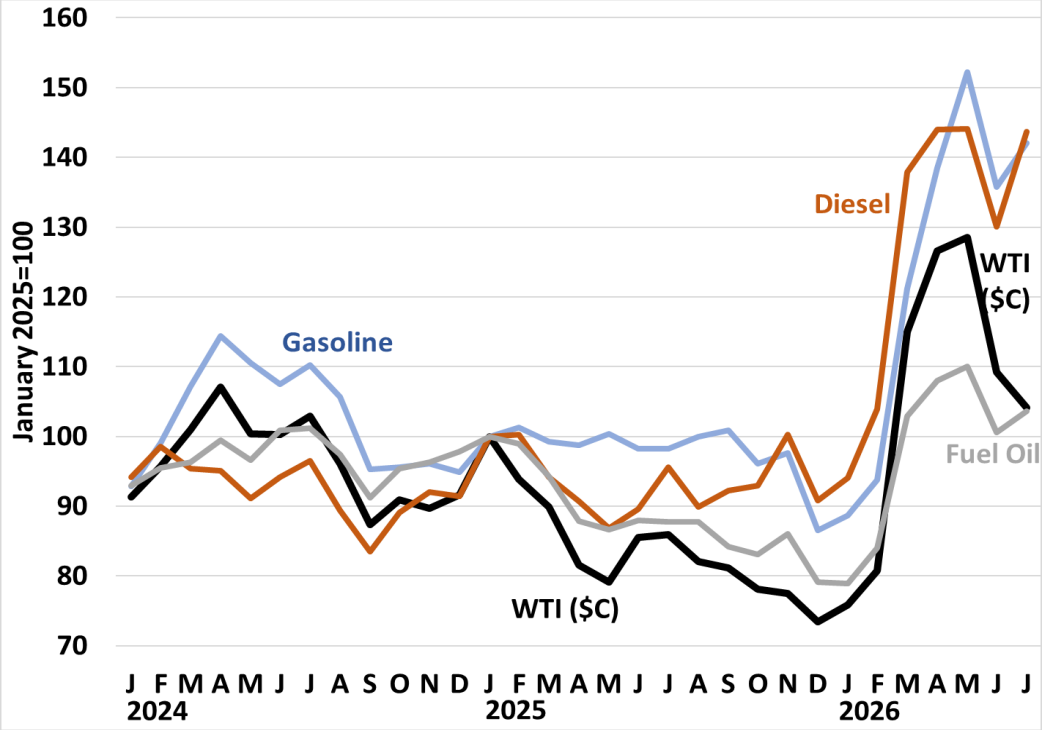
[10] In fact, the real quantity of food purchased fell by close to 1% in the second quarter compared to the first quarter, in part due to consumers' efforts to reduce purchases in the face of rising food prices.

[11] As the Bank noted in its most recent decision on interest rates, "The longer that high oil prices and elevated refinery margins persist, the greater the risk of spillover to the prices of other goods and services." See Bank of Canada, "Bank of Canada maintains the policy rate at 2¼%," September 2, 2026, https://www.bankofcanada.ca/2026/09/fad-press-release-2026-09-02/.

diesel). Evidence is clear that the outbreak of war in the Persian Gulf has been associated with a widening of that gap to record levels. Often referred to as the "crack spread" (reflecting the value-added by refining, or cracking, crude oil into constituent products), this margin to refiners has set all-time records in North America during the current price shock.[12] Diesel prices, in particular, have been usually high, even allowing for the flow-through impact of higher crude oil prices. The widening of the crack spread reflects several factors, including the highly concentrated nature of oil refining, shortages of refining capacity in some regions, and disruptions to shipments of refined products from the Persian Gulf (which have also been affected by the closure of the Strait of Hormuz).

In Canada, the increase in the crack spread is exacerbating the cost to Canadian consumers, and increasing the risk of broader spillover inflation. The Bank of Canada highlighted the impact of wider refining margins in its most recent monetary policy announcement.[13] New Statistics Canada data confirms that the traditionally-close relationship between crude oil prices and refined fuel prices has weakened in the months since the new war began.

**Figure 1. Prices Indexes for Crude Oil and Refined Products, 2024-2026**




Source: Calculations from Statistics Canada Table 18-10-0266-01, and U.S. Federal Reserve FRED database, series MCOILWTICO and EXCAUS.

[12] See, for example, Nate Gregory, "US Diesel Refining Margins Hit New Record Above $106 a Barrel," Brief Finance, September 1, 2026, https://www.briefs.co/news/us-diesel-refining-margins-hit-new-record-above-106-a-barrel/.
[13] Bank of Canada, "Bank of Canada maintains the policy rate at 2¼%," September 2, 2026, https://www.bankofcanada.ca/2026/09/fad-press-release-2026-09-02/.

Figure 1 illustrates the path of Canadian prices for crude oil and key refined products. The benchmark for crude oil is the U.S. West Texas Intermediate price, converted into Canadian dollars. Under current energy policy settings, it is that price that sets the pace for Canadian petroleum product costs, not the (lower) price received for crude oil actually produced in Canada.[14] Figure 1 also illustrates wholesale industrial product price indexes for the three largest refined fuels: gasoline, diesel, and fuel oil (used mostly for home heating by consumers). All prices are normalized to a January 2025 starting point; since they are wholesale prices, they do not reflect the impact of the federal excise tax holiday. Traditionally, refined prices closely track the world oil price (in Canadian-dollar terms) closely. Since the outbreak of the latest war, however, gasoline and diesel prices have increased further than would normally be expected from prevailing world oil prices. Moreover, gasoline and diesel prices have stayed high in recent weeks, despite a partial moderation in world oil prices. Fuel oil prices, in contrast, have continued to track crude oil prices quite closely.

This data confirms that the phenomenon of the rising crack spread (and record margins for the petroleum refining sector) is relevant in Canada, as well. It helps explain the disproportionate increase in profit margins for the downstream industry in Canada (reported below). It also suggests that high petroleum product prices are likely to continue to be a major burden for Canadian consumer – again, overwhelming the temporary savings of a tax holiday.

The record crack spread also raises policy implications. First, hopes that world oil prices might return to "normal" by January (the end of the current tax holiday), even if fulfilled, may not translate into a full normalization of gasoline and diesel costs, if the crack spread remains unusually wide. Secondly, it also suggests that issues of corporate concentration and predatory pricing by the downstream industry should also be addressed by policy-makers, in addition to considering policy options for reducing the vulnerability of Canada to fluctuations in oil prices more generally.

## Petroleum Industry Profits

Of course, there is another side of the coin to the extra costs being paid by Canadians for petroleum products – and that is a windfall of new revenue and profits for the petroleum industry. Global oil profits have surged since the U.S.-Israeli attack on Iran began, reaching peaks that rival all-time records set during the price shock of 2022.[15] The Canadian petroleum industry has shared fully in this windfall. Even though Canadian petroleum supply has continued to grow without interruption, and the cost of

[14] This relationship is explained and documented in our previous False Profits report, Counting the Costs—Impacts of the 2022 Oil Price Shock for Canadian Consumers and Workers," March 2025, https://centreforfuturework.ca/wp-content/uploads/2025/04/FalseProfits-March2025-Counting-the-Costs.pdf..

[15] See, for example, Jillian Ambrose and Damian Carrington, "Revealed: major oil firms make $93bn profits amid war and climate crisis," The Guardian, August 4, 2026, https://www.theguardian.com/business/ng-interactive/2026/aug/04/revealed-major-oil-firms-make-93bn-profits-amid-war-and-climate-crisis.

production in Canada has not been affected by the war,[16] prices and revenues for Canadian producers have followed the world surge. This is the consequence of Canadian policy choices (dating back to the 1980s) to deregulate petroleum pricing, and give producers the right to charge Canadians full world prices for their own petroleum – on pain of diverting those supplies to other, more lucrative foreign markets.

Statistics Canada's second quarter national income report includes detailed data on the evolution of business revenues, operating costs, and profits. The second quarter was the first full reporting period since the outbreak of the war in the Persian Gulf. This new data thus provides an early indication of the extent of the new revenues and profits accruing to the petroleum sector as a result of the war and its resulting hardships (experienced not just by those in the affected regions, but by consumers around the world).

Table 3 provides a summary of second quarter financial results for the two main segments of petroleum production in Canada: the upstream sector (extraction of oil and natural gas, including unconventional bitumen projects) and the downstream sector (refined petroleum products). The table does not include the petroleum retail sector (which is not reported separately in Statistics Canada data), and so excludes some additional profits attained on final retail margins for gasoline and diesel. The table reports net after-tax income for the second quarter of 2026, and the change since both the previous quarter and the like period of 2025. It also reports corresponding figures for all other non-financial industries in Canada, to compare how the price shock is affecting other businesses.

**Table 3**
**Second-Quarter 2026 Net Income by Sector**

| Sector | 2Q 2026 Net Income ($b) | Change From 1Q 2026 | Change from 2Q 2025 |
|---|---|---|---|
| Upstream Petroleum (Extraction) | $13.1 | 128.1% | 36.2% |
| Downstream Petroleum (Refining) | $8.4 | 79.9% | 182.2% |
| Total Petroleum[1] | $21.5 | 106.5% | 70.7% |
| All Other Non-Financial Industries | $93.3 | 2.6% | 1.7% |

Source: Calculations from Statistics Canada Table 33-10-0225-01.
1. Excluding final petroleum retail margins.

Upstream after-tax profits reached $13.1 billion in the second quarter. That was more than double the amount reported in the first quarter, and 36% higher than like period

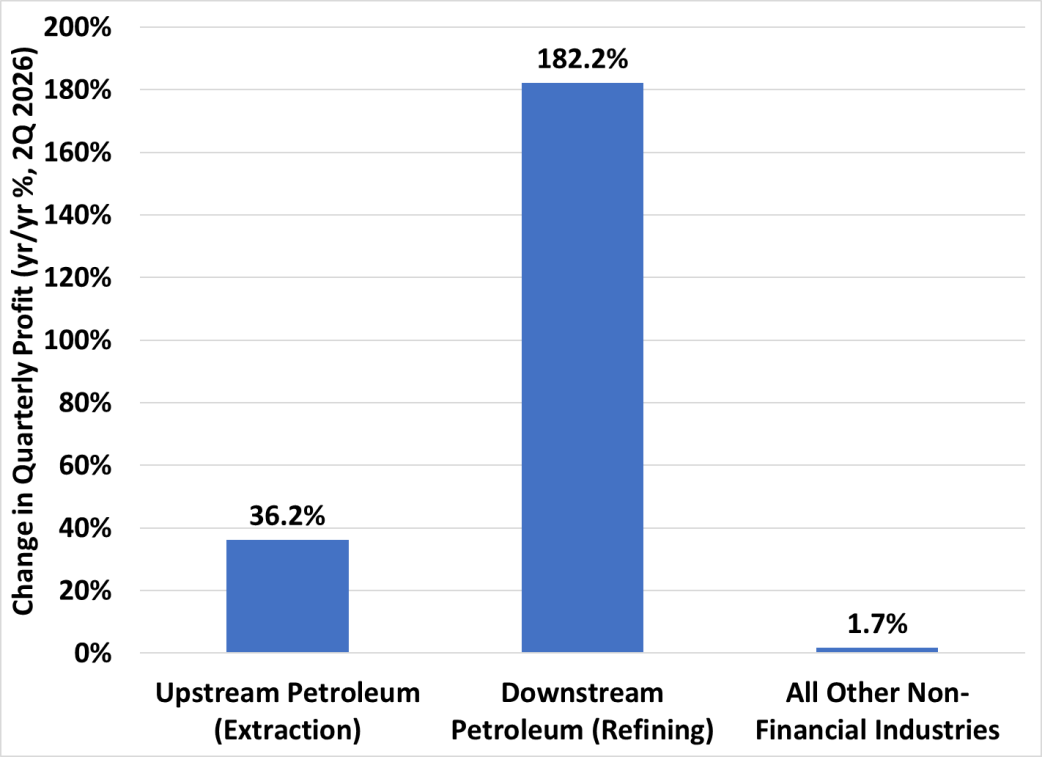
[16] It is possible that operating costs and labour expenses in the petroleum sector, like other industries in Canada, could grow because of faster economy-wide inflation resulting from the price spike, but that cannot explain the initial increase in petroleum prices that is the leading edge of that broader inflation.

2025. Downstream after-tax profits were $8.4 billion in the second quarter. That was close to triple the profits earned in the same period of 2025 – confirming that record refining margins (resulting from the widening crack spread) are contributing to disproportionate profits for refiners.

Across both portions, petroleum profits reached $21.5 billion in the second quarter. If sustained over a 12-month period, that implies annual after-tax profits for the industry of $86 billion. That would smash the industry's previous record annual profits of $68 billion, recorded in 2022 – during the last oil price shock, and resulting inflationary surge.

In contrast, business profitability across the rest of Canada's economy was stagnant in the second quarter. Total profits in non-petroleum non-financial industries increased just 1.7% year-over-year, not even enough to keep up with inflation (which has been made worse, of course, by the oil price shock). In some sectors (such as manufacturing), profitability has declined, in large part due to the impact of higher petroleum input costs on their own bottom lines.[17]

**Figure 2. Growth in Profitability by Sector, Second Quarter 2026**




Source: Calculations from Statistics Canada Table 33-10-0225-01.

Figure 2 illustrates these dramatically different profit trends. Downstream profit in the second quarter set an all-time record. Upstream profit was the second-highest quarterly

[17] In the longer run, those higher input costs are likely to be reflected in flow-through price increases, as manufacturers and other sectors try to repair the damage done by their own energy costs. This is what will cause broader inflationary pressures.

profit in history, behind only the all-time record $15.3 billion recorded in the second quarter of 2022 (the crux of the Ukraine oil shock). With continued conflict in the Persian Gulf, along with record refining margins, it is likely that 2026 will eventually mark new all-time record profits for both halves of the petroleum sector.

It is suggested by industry advocates that record petroleum profits will spur new investment, growth, and job-creation, thus spreading these windfall gains more widely through society. Evidence so far confirms this is not happening. Statistics Canada's quarterly corporate financial reports also indicate the scale of capital investment in each industry. Table 2 summarizes the change in revenue, net income, and total capital spending by the industry in the second quarter of 2026, compared to the previous quarter. Out of a $23 billion increase in combined revenue, and an $11 billion burst in net income, the two portions of the industry together increased capital spending by just $565 million. Just 5% of after-tax profits, and 2% of additional revenue, was reinvested in new capital spending.[18]

**Table 4**
**Revenue, Profit, and Reinvestment, Second Quarter 2026**

| | Change from First to Second Quarter 2026 ($b) | | |
|---|---|---|---|
| | **Change in Revenue** | **Change in Profit** | **Change in Capital Investment** |
| Upstream Petroleum (Extraction) | $12.2 | $7.4 | $0.4 |
| Downstream Petroleum (Refining) | $10.9 | $3.7 | $0.1 |
| Total Petroleum | $23.1 | $11.1 | $0.6 |

Source: Calculations from Statistics Canada Table 33-10-0225-01. Totals may not add due to rounding.

## Conclusion and Policy Implications

The outbreak of yet another world oil price shock is causing major repercussions for Canadian consumers, and worsening the challenges of affordability they have been experiencing for years. Despite an effective federal subsidy (in the form of the excise tax holiday), Canadian consumers paid over $3 billion extra in costs for motor vehicle fuels in just the three months between April and June 2026. If sustained over an entire year, that will translate into a drain on consumers' pocketbooks of $12 billion per year.

[18] An analysis of the second quarter financial reports from the four largest publicly-traded petroleum producers, who reported combined after-tax profit of $13 billion, showed that their aggregate capital spending actually declined in the second quarter, even as record amounts (over $6 billion) were distributed to corporate owners through dividends and share buybacks; see Jim Stanford, "Iran War, Soaring Prices Drive Record Oil Profits," August 6, 2026, https://centreforfuturework.ca/2026/08/06/iran-war-soaring-prices-drive-record-oil-profits/.

Sooner or later, the federal excise tax holiday will come to an end. And like all band-aids, this one will hurt when it's ripped off. At that point, the toll to consumers, and the resulting acceleration in inflation, will get worse still. The alternative is to eliminate the tax altogether, permanently adding another $5 billion per year to the federal deficit, and imposing a cost on all taxpayers (including those, like electric vehicle owners or non-drivers, who get no benefit from the tax exemption).

Instead of trying to ease the pain of this oil shock with a temporary subsidy, policy-makers should direct their attention to the root cause of the ongoing pattern of fossil fuel inflation and price volatility that has caused such damage to affordability in recent years. In addition to reconsidering Canada's existing policy of tying domestic prices for domestic energy directly to the global futures market roller coaster, government should now consider the additional challenge posed by record refining margins and the widening crack spread. This suggests a need for measures to enhance transparency and price competition in the downstream industry, in addition to reforms to how Canada manages petroleum prices more generally.

In the meantime, measures to redistribute some of the profit windfall being collected by the petroleum sector to the consumers who help to pay for those profits, should also be considered. For example, implementing an excess profit tax on the petroleum industry similar to the one applied to Canadian banks during the COVID emergency (namely, a doubling of the standard 15% federal corporate tax rate at times when industry profits are far above normal returns) could potentially raise $7.5 billion in a year. That would be enough to reimburse the federal treasury for the cost of the excise tax holiday (which is an effective subsidy to the companies earning those record profits), and contribute to other measures (such as the expanded Groceries and Essentials Benefit) to cushion the blow for consumers from this oil-fueled surge in inflation.

Ultimately, of course, the strongest path to reducing Canadians' vulnerability to fossil fuel price shocks is to accelerate the transition to other forms of energy, and energy conservation. Hydroelectric power, renewable energy technologies, and conservation measures (such as insulation and fuel efficiency) are not subject to the whims of geopolitics and far-off wars. They are good for consumers' pocketbooks, as well as for slowing down climate change. The impressive reductions in home heating oil purchases by Canadian consumers over the past year, which (as noted above) has largely offset (in aggregate) the impact of the current price shock on that category of consumer spending, is an example of how committing more strongly and consistently to the energy transition can enhance affordability and energy security for Canadians.